

ATTENTION!

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Summary of problems of Russian economy

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Following problems of Russian economy are mentioned in Åslund (2002):

Rent-seeking

- Soft budget constraints**
1. Subsidies to enterprises in form of barter (non-monetary payments), non-payments, wage and tax arrears, offsets, direct subsidies, state credits, tax privileges and exemptions
 2. Monetary and fiscal stimulation of enterprises (soft budget constraints)
 3. Central Bank is issuing cheap credits to state enterprise managers

- Corruption**
1. Corruption in combination with high large public expenditure is particularly harmful

- Monopolies**
1. Economic and political strength of large monopolies (Gazprom, Transneft', UES)
 2. Failure of anti-monopoly policy
 3. Untransparent deals between the government and Gazprom/UES
 4. Untransparent Gazprom activity in Russia
 5. Discrimination of Gazprom's competitors
 6. Railroads monopoly (trade inhibition by overpricing, corruption)

- Politics**
1. No political support for reforms
 2. Underdeveloped political system (semidemocracy, lack of parties with history, ideology and tradition)
 3. Strong and unreformed communist party
 4. Isolation of non-corrupt politicians (e.g. Iavlinskii)
 5. Strong Agrarian lobby (demanding regulation of prices for agricultural commodities)
 6. Problems with party formation
 7. Government reform necessary
 8. Civil service reform necessary
 9. Lack of ideology ("identity crisis")

- Taxation**
1. Tax reform is necessary (too high and too many taxes, tax collection competition)
 2. Too many licenses and inspections cause corruption and rent-seeking
 3. Restoration of the state monopoly on the tax collection is necessary
 4. Tax hiding at regional level
 5. Too high public revenue
 6. Tax exemptions
 7. Overtaxing forces honest entrepreneurs to escape into underground economy
 8. Problems with the collection of VAT
 9. Problems with the collection of import tariffs

10. Many problems with the collection of excise taxes
11. Corruption in the customs system
12. Profit tax too high
13. Lowering taxes is necessary to reduce rent-seeking

- Finance**
1. Large government spending
 2. Private banks are allowed to handle state funds without to pay for this privilege
 3. Non-convertibility of the ruble
 4. Little budget discipline
 5. Too high public investment
 6. Lack of accountability of the Central Bank
 7. Low M2 indicator in Russia
 8. No monetary restraint in Russia
 9. Underdeveloped banking system
 10. Survival of many post-Soviet banks due to subsidies
 11. Bankruptcy of banks does not necessarily improve them
 12. Criminalization of banks
 13. Capital flight in various flavors
 14. High inflation

- Structural transformation of the economy**
1. Not finalized structural reforms
 2. Unfair competition
 3. Bankruptcy system is not working
 4. Complicated and costly process of establishing new firms
 5. Distorted coal industry
 6. Underdeveloped legal system

- Social welfare**
1. Reform of the pension system is necessary
 2. Many underfinanced public programmes, which were never implemented (source for rent-seeking)
 3. Rent-seeking in the social system
 4. Not accomplished health care reform
 5. Problems with social support

- Socialism**
1. Price regulation (e.g. energy, export and agricultural commodities)
 2. Import/export regulations
 3. Unflexibility of labour markets due to state enterprise managers' refusal to accept sufficiently high unemployment benefits and then to fire unused workers
 4. Local controls of prices and trade
 5. Protectionist import tariffs policy

- Economic isolation**
1. No access to WTO markets (trade isolation)
 2. Anti-dumping actions against Russia by the EU/USA
 3. Continuation of the containment policy against Russia

References

- A. Åslund. *Building Capitalism ; The Transformation of the Former Soviet bloc*. Cambridge University Press, 2002. ISBN 0-521-80525-2.